

Message Text

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C O N F I D E N T I A L HELSINKI 2573

E.O. 11652: GDS
TAGS: PINT ELAB, FI
SUBJECT: CENTER RIGHT COMPROMISE ASSURES BUDGET SUPPORT

REF: HELSINKI 2538

1.SUMMARY: GOVT HAS AVERTED CRISIS BY REACHING AGREEMENT
WITH CONSERVATIVES ON BUDGET. COMPROMISE BUDGET BILL
INCREASES AGRICULTURAL SUPPORT AND SHIFTS FROM DIRECT
TOWARD INDIRECT TAXES. AGREEMENT ALSO SIGNIFIES RE-
EMERGENCE OF CETNER-RIGHT ALTERNATIVE IN FINNISH
POLITICS.

2. FINNISH GOVERNMENT CRISIS WAS AVERTED WHEN PRIMIN
MIETTUNEN CARRIED OUT HIS THREAT (REFTEL) TO TURN TO CONSERVA-
TIVES AND CHRISTIAN LEAGUE FOR SUPPORT OF BUDGET AND ON DEC 9
REACHED COMPROMISE AGREEMENT WITH THEM AFTER ONLY TWO DAYS OF
NEGOTIATIONS. AGREEMENTS AVERTS FALL OF GOVT OVER BUDGET
ISSUE AND APPERAS INSURE SURVIVAL OF MINORITY GOVERNMENT
THROUGH END OF YEAR. CONSERVATIVES THYS PLAY DECISIVE
ROLE IN PARLIAMENT FOR FIRST TIME IN 10 YEARS, JOINING
WITH CHRISTIANS AND GOVT PARTIES TO FORM MAJORITY BLOC
OF 102 MEMBERS IN SUPPORT OF BUDGET ITEMS.

3. MAJOR POINTS OF BUDGET AGREEMENT: UNWEIGHTED INCOME
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TAX REDUCTION OF 16 PERCENT, PROPERTY TAX REDUCTION OF

16 PERCENT, AND INCREASE OF 3 PERCENT IN SALES TAX. FORMULA FOR DISPOSAL OF AGRICULTURAL SURPLUS PROVIDES FOR PAYMENTS OF 250 MILLION FINNMARKS BY FARMERS AND 1486 MILLION BY GOVERNMENT (UP FROM ORIGNIAL DRAFT 150 AND 1186) TO MARKETING FUND, WITH ANY ADDITIONAL AMOUNTS NEEDED TO BE PUSHED FORWARD TO 1978 BUDGET. PARTIES ALSO AGREED TO EXEMPT INDUSTRIAL CONSTRUCTION INVESTMENTS FROM SLAES TAX. CHRISTIANS PERSUADED GOVERNMENT TO PROVIDE 2 MILLION MARKS STATE SUPPORT FOR MISSIONARY ACTIVITES AND PUBLICATIONS. ITEMS SUCH AS ADDITIONAL INSURANCE TAX PUT FORTH BY SOCIAL DEMOCRATS (SDP) (REFTEL) WERE DROPPED, AND REST OF GOVERNMENT BUDGET REMAINED ESSENTIALLY INTACT.

4. THE TWO LEFTIST PARTIES HAVE SHARPLY CRITICIZED BOTH COMPROMISE AND ITS CONTENT. SDP CHAIRMAN SORSA SAID AGREEMENT WAS SO FAR-REACHING TI WAS EQUIVALENT TO A COALITION COMPACT, ENDANGERING FUTURE COOPERATION BETWEEN SDP AND CENTER PARTY. SKDL (COMMUNIST FRON) PARLIA-MENTARY GROUP SECRETARY SAARTO SUSPECTED MUCH GREATER MUTUAL COMMITMENT BETWEEN CENTER AND CONSERVATIVES THAN MEETS THE EYE. SKDL PARTY COUNCIL WARNED THE CENTER PARTIES AGAINST COOPERATION WITH RIGHT, SAYING IT WOULD HAVE HARMFUL EFFECTS ON FINNISH FOREIGN POLICY. BOTH SAARTO AND SKDL CHAIRMAN ALENIOUS CALLED FOR GREATER JOINT EFFORTS BY LEFT PARTIES ON BEHALF OF THE WORKER, WHOSE INTERESTS THEY SEE IGNORED BY COMPROMISE. SDP SEC GEN SUNDQVIST SAID IT IS "CHARACTER-ISTIC OF THE HISTORICAL BOURGOIS COMPROMISE THAT IT DID NOT INCLUDE SINGLE MENTION OF EMPLOYMENT."

5. MIETTUNEN DEFENDED THE COMPROMISE BY POINTING OUT THAT IT CONCERNED ONLY PASSAGE OF BUDGET AND BY OBSERVING THAT A MINORITY GOVERNMENT MUST TAKE SUPPORT WHERE IT FINDS IT, A POSITION WHICH, HE ADDED SIGNIFICANTLY, IS SHARED BY PRESIDENT KEKKONEN. MIETTUNEN SAID AGREEMENT WOULD HAVE NO EFFECT ON LATER TALKS WITH SDP ON EXPANDING GOVT. CENTER PARTY PAPER SUOMENMAA POINTED OUT THAT FOVERNMENT HAD HAD NO CHOIC AS SDP HAD NOT BEEN PREPARED TO SHOULDER RESPONSIBILITY FOR BUDGET. LEADING INDEPENDENT HELSIGIN SANOMAT CALLED IT "ONLY NATURAL" TAHT NON-SOCIALIST MINORITY GOVT GETS

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SUPPORT OF NON-SOCIALIST PARLIAMENTARY MAJORITY AND SAW AGREEMENT CREATING CONDITIONS FOR SETTLEMENT OF NUMBER OF MAJOR ECONOMIC PROBLEMS.

6. THE LEFT EMPHASIZED DIFFICULTIES THE AGREEMENT PRESENTS FOR CENTRAL INCOMES POLICY DISCUSSIONS. IN SAK LABOR CONFEDERATION BOTH SOCIAL DEMOCRAT AND COMMUNIST LEADERS CRITICIZED PARTICULARLY THE 3

PERCENT SALES TAX INCREASE, WHICH WILL RAISE THE CONSUMER PRICE INDEX AN ESTIMATED 1.7 PERCENT. SORSA SAID THE TAX SETTLEMENT SERIOUSLY ENDANGERS BASES FOR CENTRAL AGREEMENT.

7. GOVERNMENT PLANS FOR PASSING BUDGET CALL FOR FIRST AND SECOND READINGS TO BE COMPLETED IN PARLIAMENT BEFORE CHRISTMAS AND FINAL READING BEFORE NEW YEAR. FINANCE COMMITTEE HAS ALREADY MADE NECESSARY CHANGES IN BILL TO ACCOMMODATE COMPROMISE. EARLY TEST OF SUPPORT CAME DEC 10 WHEN TWO EXCISE TAX BILLS NOT DIRECTLY RELATED TO BUDGET ISSUE RECEIVED MAJORITY SUPPORT WITH CONSERVATIVE AND CHRISTIAN LEAGUE MP'S VOTING WITH GOVT. IT THUS APPEARS THAT COMPROMISE WILL BE DURABLE ENOUGH TO SECURE PASSAGE OF BUDGET, ALTHOUGH OPPOSITION FILIBUSTER COULD STILL SET SCHEDULE BACK SOMEWHAT.

8. COMPROMISE AGREEMENT IS HIGHLY SIGNIFICANT. IT HAS GIVEN CONSERVATIVES A DECISIVE VOICE IN PARLIAMENT FOR THE FIRST TIME IN TEN YEARS AND IN PRACTICE SIGNIFIES THE RE-EMERGENCE ON AN IMPORTANT ISSUE OF CENTER/RIGHT ALTERNATIVE IN FINNISH POLITICS. WHILE AGREEMENT APPLIES ONLY TO BUDGET AND DEPENDS ON STRICT PARTY DISCIPLINE TO MAINTAIN SLIM MAJORITY, IT HAS AVERTED LATEST GOVT CRISIS AND HAS GIVEN PRACTICAL SIGNIFICANCE -- AT LEAST ON BUDGET ISSUE -- TO PARLIAMENTARY MAJORITY ENJOYED BY NON-LEFTIST PARTIES. EQUALLY IMPORTANT IS FACT THAT SOLUTION HAD AT LEAST QUALIFIED BLESSING OF PRES KESKONEN, WHO THUS TACTICALLY ACQUIESCED IN ENDING OF OUTRIGHT OSTRACIZATION OF THE CONSERVATIVES, EVEN IF HE MAY NOT BE READY TO ALLOW THEM FULL PARTICIPATION IN GOVERNMENT. WHILE MIETTUNEN AND PRESIDENT

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MAY EMPHASIZE LIMITED NATURE OF AGREEMENT, REACTION OF SORSA AND LEFT CLEARLY SIGNAL IT WILL NOT BE EASY FOR SDP TO COOPERATE CLOSELY WITH OR PARTICIPATE IN A GOVT WHICH IS IMPLEMENTING A CENTER/RIGHT BUDGET. THUS, DESPITE ITS LIMITED NATURE, AGREEMENT ON BUDGET COULD INFLUENCE POLITICAL ALIGNMENT ON OTHER -- PARTICULARLY ECONOMIC -- MATTERS. AT MINIMUM, REAPPEARANCE OF CENTER/RIGHT ALTERNATIVE IN BUDGET SOLUTION MUST INEVITABLY COLOR FUTURE TACTICAL POLITICAL MANEUVERING. FOR EXAMPLE, NO MORE CAN SDP ASSUME IT CAN SET ITS OWN TERMS WHEN DEALING WITH CENTER PARTIES, AT LEAST ON ECONOMIC QUESTIONS.

9. THE BUDGET AGREEMENT IS LATEST OF DRAMATIC POLITICAL DEVELOPMENTS OVER PAST THREE MONTHS WHICH --

VIEWED TOGETHER -- CONSTITUTE THAT MOST IMPORTANT
RESTRUCTURING OF FINNISH POLITICAL LANDSCAPE IN OVER
10YEARS. EMBASSY IS PREPARING AN ANALYSIS EXAMING
THESE DEVELOPMENTS AND THEIR IMPLICATIONS.
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